

## Fund 506

### Health Benefits Trust Fund

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#### **Focus**

Fairfax County Government offers its employees and retirees health insurance options providing choices and competitive premium rates. The County health insurance alternatives include a self-insured point-of-service (POS) plan, a self-insured preferred provider plan (PPO) and two fully insured Health Maintenance Organizations (HMOs) for both active employees and retirees. The County's current health insurance program is a result of revisions enacted in FY 1999 and FY 2001.

Fund 506, Health Benefits Trust Fund, is the administrative unit for the self-insured alternatives. For the self-insured plans, the County pays only for claims and third party administrative fees. The cost to fund claims expenses is covered by premiums from active employees, the employer, retirees and retention of interest earnings.

The self-insured plans (POS and PPO) provide in-network and out-of-network options. The POS plan combines the best features of a health maintenance organization (HMO) and a traditional indemnity plan. The second option provides the choice of a preferred provider plan (PPO) combining an in-network benefit and an out-of-network benefit for those employees and retirees who live outside of the managed care network area.

After slow medical cost growth in the early to mid 90's, spending for health care has been steadily increasing in recent years. Nationwide, cost growth is projected to increase an average of 8 to 12 percent per year. The County health care experience has closely mirrored the national trend. The primary factors in the escalating cost growth are increased utilization and the rising costs of prescription drugs. It should be noted that even with adjustments to the plan, medical and prescription claims costs have more than doubled since FY 1999.

As a result of better than anticipated medical cost growth experience and lower than anticipated medical and prescription claims in recent years, the County's self-insured plan will raise premiums by a moderate 12 percent effective January 1, 2006 for the final six months of FY 2006. The 12 percent premium increase will allow the fund to remain solvent, to maintain a revenue stream that will cover the cost of health claims, and maintain reserve funding to smooth out the employer and employee impact as it relates to unanticipated dramatic cost growth swings in future years. The targeted ending balance for the fund is based on a balance as a percent of claims paid of at least 10 percent to ensure that the fund balance is adequate to support any unanticipated high cost claims. It should be noted that an ending balance of 10 to 15 percent of claims paid is the targeted industry standard.

The projected 12 percent increase in premiums results in an average monthly increase of \$7.80 for active employees enrolled as an individual in the POS plan and \$9.00 for active employees enrolled as an individual in the PPO plan. In addition, the average monthly increase for active employees enrolled under the family POS plan is \$37.56 and for active employees enrolled in the PPO family plan the increase is \$43.20. It should be noted that the County continues to contribute 85 percent of the total premium for employees enrolled as an individual and 75 percent of the total premium for employees enrolled under either the two-party or family plan. Retirees over the age of 55 currently receive a subsidy from the County toward the cost of health insurance. The current monthly subsidy, approved in FY 2005, commences at age 55 and varies by length of service and Medicare eligibility. Note: There is not a reduction in subsidy payments for employees who retired prior to July 1, 2003 but do not meet the revised requirements for years of service. Details on the retiree health subsidy can be found in the narrative for Fund 500, Retiree Health Benefits, in Volume 2 of the FY 2006 Advertised Budget Plan.

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#### **FY 2006 Funding Adjustments**

*The following funding adjustments from the FY 2005 Revised Budget Plan are necessary to support the FY 2006 program:*

- ◆ **Health Insurance Requirements** **\$743,529**  
An increase of \$743,529 is primarily attributable to an increase of \$2,486,510 in benefits paid due to a 12.5 percent cost growth assumption and anticipated employee participation in the plan and an increase of \$301,471 in administrative expenses. This is partially offset by a decrease of \$2,042,432 for the premium stabilization buffer and a slight decrease of \$2,020 for Incurred But Not Reported (IBNR) claims based on anticipated requirements.

#### **Changes to FY 2005 Adopted Budget Plan**

*The following funding adjustments reflect all approved changes in the FY 2005 Revised Budget Plan since passage of the FY 2005 Adopted Budget Plan. Included are all adjustments made as part of the FY 2004 Carryover Review and all other approved changes through December 31, 2004:*

- ◆ **Carryover Adjustments** **\$7,538,244**  
As part of the FY 2004 Carryover Review, the Board of Supervisors approved an increase of \$9,253,282 to reflect an appropriation from fund balance to establish a premium stabilization buffer to allow the fund flexibility in maintaining premium increases at manageable levels, offset by a reduction of \$1,396,089 to recognize the recurring impact of lower than anticipated cost growth for benefit claims and a reduction of \$318,949 to reflect the anticipated adjustment for Incurred But Not Reported (IBNR) claims in FY 2005.

# Fund 506

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### FUND STATEMENT

#### Fund Type G50, Internal Service Funds

#### Fund 506, Health Benefits Trust Fund

|   | FY 2004<br>Actual   | FY 2005<br>Adopted<br>Budget Plan | FY 2005<br>Revised<br>Budget Plan | FY 2006<br>Advertised<br>Budget Plan |
|---|---------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| <b>Beginning Balance</b>                  | <b>\$7,850,525</b>  | <b>\$7,959,873</b>                | <b>\$14,409,489</b>               | <b>\$9,660,728</b>                   |
| Revenue:                                  |                     |                                   |                                   |                                      |
| Employer Share of Premiums-County Payroll | \$36,957,652        | \$39,063,846                      | \$40,847,074                      | \$43,592,769                         |
| Employee Share of Premiums-County Payroll | 10,706,311          | 11,731,208                        | 11,934,717                        | 13,515,008                           |
| Other Funds Premiums                      | 12,157,049          | 12,482,549                        | 13,552,926                        | 15,133,648                           |
| Interest Income                           | 135,139             | 350,000                           | 350,000                           | 350,000                              |
| Administrative Service Charge             | 37,941              | 11,000                            | 11,000                            | 11,000                               |
| Total Revenue                             | \$59,994,092        | \$63,638,603                      | \$66,695,717                      | \$72,602,425                         |
| <b>Total Available</b>                    | <b>\$67,844,617</b> | <b>\$71,598,476</b>               | <b>\$81,105,206</b>               | <b>\$82,263,153</b>                  |
| Expenditures:                             |                     |                                   |                                   |                                      |
| Benefits Paid                             | \$51,523,881        | \$59,360,455                      | \$57,964,366                      | \$60,450,876                         |
| Administrative Expenses                   | 2,791,556           | 3,428,142                         | 3,428,142                         | 3,729,613                            |
| Cost Containment                          | 276                 | 0                                 | 0                                 | 0                                    |
| Premium Stabilization Reserve             | 0                   | 0                                 | 9,253,282                         | 7,210,850                            |
| Incurred but not Reported Claims (IBNR)   | (880,585)           | 1,117,637                         | 798,688                           | 796,668                              |
| Total Expenditures                        | \$53,435,128        | \$63,906,234                      | \$71,444,478                      | \$72,188,007                         |
| <b>Total Disbursements</b>                | <b>\$53,435,128</b> | <b>\$63,906,234</b>               | <b>\$71,444,478</b>               | <b>\$72,188,007</b>                  |
| Ending Balance:                           |                     |                                   |                                   |                                      |
| Fund Equity                               | \$20,624,489        | \$16,893,113                      | \$16,674,416                      | \$17,329,252                         |
| IBNR                                      | 6,215,000           | 9,200,871                         | 7,013,688                         | 7,254,105                            |
| <b>Ending Balance<sup>1</sup></b>         | <b>\$14,409,489</b> | <b>\$7,692,242</b>                | <b>\$9,660,728</b>                | <b>\$10,075,146</b>                  |
| <b>Premium Stabilization Reserve</b>      | <b>\$0</b>          | <b>\$0</b>                        | <b>\$0</b>                        | <b>\$0</b>                           |
| <b>Unreserved Ending Balance</b>          | <b>\$14,409,489</b> | <b>\$7,692,242</b>                | <b>\$9,660,728</b>                | <b>\$10,075,146</b>                  |
| <b>Percent of Claims</b>                  | <b>28.0%</b>        | <b>13.0%</b>                      | <b>16.7%</b>                      | <b>16.7%</b>                         |

<sup>1</sup> The FY 2004 Actual Ending Balance increases \$6.6 million over the FY 2004 Actual Beginning Balance based on better than anticipated experience during the fiscal year. Fluctuations in the ending balance in budget years are due to the Fund's policy of maintaining the ending balance as a percent of claims at the targeted industry standard.